



THE CITY OF SAN DIEGO
MANAGER'S REPORT

DATE ISSUED: March 28, 2003 **REPORT NO.** 03-058

ATTENTION: The Committee on Rules, Finance, and Intergovernmental Relations

SUBJECT: City Manager's Proposal regarding the Blue Ribbon Committee's recommendations on the City pursuing operational efficiencies

REFERENCE: Blue Ribbon Committee Report on City of San Diego Finances – February 2002
Blue Ribbon Recommendations/Rules Committee Actions – Memo April 2002

SUMMARY

Issue – Should the City Council adopt the City Manager's recommendations to pursue operational efficiencies as recommended by the Blue Ribbon Committee on City of San Diego Finances?

Manager's Recommendation – Adopt the proposal regarding the City pursuing operational efficiencies.

1. Continue to operate the Zero-Based Management Review process.
2. Continue to prioritize city services giving deference to higher priority needs.
3. Continue to operate the Optimization Program.
4. Identify and optimize critical citywide and cross-departmental functions.
5. Explore opportunities to create an innovation fund to pay for projects that show exceptional promise for improved efficiency.
6. Continue to review department business plans to identify opportunities for improved efficiency.
7. Continue to operate under the Labor-Management Partnership - Bid to Goal agreements in the Water and Wastewater Departments.
8. Look for additional opportunities to implement Bid to Goal in other areas of the City as appropriate and as funding permits.
9. Continue to operate the Performance-Based Budgeting Program.
10. Continue to publish the Citizens' Budget Document.
11. Continue to conduct appropriate benchmarking efforts.
12. Continue to conduct an annual Resident Satisfaction Survey.
13. Continue to publish the annual Service Efforts and Accomplishments document.
14. Continue to implement Citywide Automation Projects as appropriate and as funding permits.

Other Recommendations: *Blue Ribbon Committee Report of February 2002 recommendation # 8: Seek ways to reduce expenditures either through improved operational efficiencies or elimination of specific services in deference to higher priority needs.*

Fiscal Impact: Since 1994, programs designed to reduce expenditures by making the City more competitive and efficient (known as Performance Management Programs) have realized a combined cumulative benefit for the City of San Diego in excess of \$150 million.

This benefit includes costs avoided through improved efficiencies and better technology, increased revenues from innovation, and reduced expenditures resulting from process improvements and better management. Portions of the savings derived from these improved efficiencies has been returned to the City Manager, Mayor and City Council for reallocation to higher priority needs while other portions were reinvested within departments to provide more, better, or less costly services.

BACKGROUND

On April 15, 2002 the City Council adopted the Blue Ribbon Committee Report, which evaluated the City's current fiscal health and provided recommendations for improvement. This report specifically commended the improved efficiency of operations

achieved through Zero-Based Management Review (ZBMR) and the Organizational Effectiveness Program. Among the recommendations of the Blue Ribbon Committee was:

Recommendation #8: Seek ways to reduce expenditures either through improved operational efficiencies or elimination of specific services in deference to higher priority needs.

The City of San Diego has long been recognized as a well-managed City and a national leader in fiscal and performance management. For nearly a decade, the City of San Diego has been at the forefront of a nationwide movement to make local government more efficient, higher performing, more transparent, more responsive, and more accountable. While San Diego has relatively low per capita costs for service delivery, resident opinion surveys consistently show satisfaction with City services to be exceptionally high, with the most recent survey reflecting a 95% satisfaction rating. These accomplishments have not gone unnoticed by the financial markets either, where San Diego has consistently earned a very strong bond rating.

A March 2002 report by the Reason Public Policy Institute titled, *Citizens' Budget Reports: Improving Performance and Accountability in Government*, has this to say about the City of San Diego:

“Since 2000, Governing, Government Finance Review, and Reason Public Policy Institute’s Competitive Cities Report have all named San Diego one of the most efficient and or well-managed cities in the nation.”

The study goes on to say:

“Citizens are demanding results—they want to know how their money is being spent, why it’s being spent that way, and how much they’re getting for their money. Pressure has been thrust upon policymakers to continually strive for better, more efficient service delivery. Strategic planning, performance-measurement budgeting and citizen surveys provide the framework for a government to be efficient, effective, and responsive to its citizenry.”

In February of 2002, San Diego was named in a Reason Public Policy Institute study as the most efficiently run large city in California. However, despite its success so far, the City of San Diego remains committed to continually seeking additional ways to reduce expenditures, operate more efficiently, and carefully prioritize the best use of scarce public resources.

This mindset of continuous improvement is rooted in ideas, innovations, and recommendations provided by citizen volunteer and employee suggestions. Over the years there have been several excellent commissions, panels, task forces and committees looking at ways for the City to be more efficient and effective, and two of them deserve

special mention here, as they were the catalyst for many of the City's most successful Performance Management Programs:

- Citizens to Help Advocate Needed Government Efficiency and Effectiveness (CHANGE²), which was a citizen task force created by the Mayor in 1993 to examine the City's municipal government, identify areas where the City could improve its performance and recommend changes.
- Streamlining for Efficiency and Productivity (STEP) program, which was initiated by the City Manager and focused on employee suggestions, training, and ideas that supported continuous process improvement.

With the partnership of private and public sector approaches under the CHANGE² and STEP efforts, several key Performance Management Programs were established, including: the Select Committee on Government Efficiency & Fiscal Reform; Zero-Based Management Review; the (Competition) Optimization Program, Performance-Based Budgeting, and Bid to Goal; as well as many others. By leveraging the talent and innovative ideas of citizen volunteers, employees, elected officials, labor-management partnerships, and consultants; the City reinvented itself by designing key service delivery processes that provided better performance while using fewer resources.

DISCUSSION

The various processes that make up the Performance Management Programs were not created all at once from a master plan for improving City efficiency. These programs are a collection of new and existing processes, pilot projects, and cutting-edge innovations created to meet special needs or purposes. They are housed and administered within several different departments. When taken collectively they constitute an interconnected system that provides the management and oversight necessary to continuously become more efficient.

While it would be impractical to discuss every efficiency program and project in the City, several of the core programs are presented here along with recommendations for the future.

ZERO-BASED MANAGEMENT REVIEW

Establishing this program was a principal recommendation from CHANGE² and entails utilizing teams of citizen volunteers to conduct independent operational reviews of all City departments. This process is managed by the Select Committee on Government Efficiency and Fiscal Reform (The Select Committee), which meets monthly to discuss operating issues, and reports to the Rules, Finance and Intergovernmental Relations Committee.

The Select Committee is usually chaired by the Deputy Mayor who is joined by two other Council members from the Rules Committee. In addition, there are sixteen citizen members (2 from each Council District), as well as two members from the original CHANGE² task force.

The City Manager identifies operational priorities and proposes an annual work program for the ZBMR. Under contract with the City, Non-Profit Management Solutions Inc. organizes teams of knowledgeable citizen volunteers to review City operations and report back with recommendations to the Select Committee. Departments being evaluated are required to review the recommendations of the ZBMR and report back to the Select Committee within 60 days of receiving the initial report with their plans for implementing these recommendations.

The ZBMR process began in Spring 1995 with a pilot project to review the Equipment Division; it continues today with ongoing reviews and responses involving most City departments. Each year, ZBMR teams review approximately 20% of City operations (as determined by a percentage of total City budget).

Accomplishments

As a result of ZBMR recommendations, City departments have identified significant opportunities for improving their efficiency and effectiveness. Here are some noteworthy examples:

- Library– Catalog benchmark and restructuring - \$136,000
- Metropolitan Wastewater Department Consolidate staff – reduce lease costs - \$850,000
- Metropolitan Wastewater Department Reduce Overtime - \$780,000
- Park & Recreation – Use more volunteers - \$3.4 Million
- Water Quality Lab – Contracting with outside agencies - \$35,000
- Police – Reduce take home vehicles - \$450,000
- Engineering – Cross-training and staff rotation for workload balancing - \$823,000
- Water – Match size of vehicle to job requirement & reduce specialty vehicles - \$2.7 Million

Recognition

In May 2002, the San Diego County Taxpayers Association presented the City of San Diego - Zero Based Management Review with their prestigious Watchdog Award, citing ZBMR's role in identifying over \$40 million worth of efficiency improvements.

At its June 2000 conference, the Government Finance Officers Association (GFOA) recognized the City of San Diego - Zero Based Management Review Program with its prestigious National Award for Excellence.

Recommendations

1. Continue to operate the Zero-Based Management Review Process.

2. Continue to prioritize city services giving deference to higher priority needs.

Based on its record of accomplishment, the Zero-Based Management Review process continues to provide new ways to reduce expenditures through recommendations for improved operational efficiencies, validation of the need for and priority of City services, and it offers an outstanding return on investment.

OPTIMIZATION PROGRAM

The Optimization Program was established in 1994 in accordance with Council Policy Number 000-30 to insure that City services are delivered through the most effective and efficient means available. The Optimization Program functions as an internal management consultant team providing re-engineering, optimization, process improvement, and performance monitoring for City departments. An advisory board, known as the Optimization Advisory Panel, governs the Optimization Program. The Optimization Advisory Panel is comprised of business and community leaders appointed by the City Manager along with representatives from the labor organizations, and City employees from a variety of departments and job classifications. Their primary responsibility is to make recommendations on what services should be considered for the Optimization process, reviewing assessment reports, address policy and employee development issues that may arise due to program implementation, and general oversight and guidance of the Program.

The Program has encouraged departments to look at operations differently and as a result implement creative improvements that generate cost savings and/or improve the efficiency of service delivery. The City has been effective in incorporating best practices and private sector perspective to generate savings and create a more competitive government organization.

Accomplishments

The Optimization Program has conducted competitive assessments and benchmarking studies in over 20 City departments and programs. Notable examples include the Metropolitan Wastewater Department, the Parking Management Division, and Equipment Division.

In Metropolitan Wastewater (MWWD) competitive assessments have been conducted in the Operations and Maintenance Division, biosolids pelletization and cogeneration processes, the Wastewater Collection system and the Environmental Monitoring and Technical Services Division. In the case of biosolids pelletization and cogeneration, competitive assessments resulted in decisions to contract-out the services. In the case of Operations and Maintenance, Wastewater Collection, and Environmental Monitoring activities, the assessments served as catalysts for major process improvement initiatives, notably Bid to Goal (see page 8) and ISO-14001 certification which is a systematic process to document procedures to ensure full compliance with standards of operations

that consider environmental impact. Cumulative MWWD benefit resulting from these initiatives is currently in excess of \$90 million.

In the Parking Management Division, the competitive assessment led to the implementation of an automated parking ticket system. This system has produced departmental efficiencies and most notably significantly increased the City's collection rate on parking citations through expedited notification of parking violations.

In the Equipment Division, the competitive assessment led to increased employee participation in decision-making through the establishment of a Policy Board, a strengthening of the Division's preventive maintenance program and the implementation of an equipment management system. These and other initiatives have allowed the Division to save an estimated \$2 million since the assessment. More recently, in 2002 the Division recruited the Optimization Program and the Environmental Services Department to conduct a joint benchmarking study on the maintenance of refuse packers.

Recognition

The City of Kansas City, Missouri has recently created an Optimization Program modeled after the City of San Diego.

The City's commitment to interpersonal communications, employee empowerment and training, recognition and rewards has resulted in the San Diego Business Journal and the Workforce Partnership presenting the City with the "Best Companies to Work for in San Diego" award in December 2001.

Recommendations

3. Continue to operate the Optimization Program.
4. Identify and optimize critical citywide and cross-departmental functions.
5. Explore opportunities to create an innovation fund to pay for projects that show exceptional promise for improved efficiency.
6. Continue to review department business plans to identify opportunities for improved efficiency.

Based on its record of accomplishment, the Optimization Program continues to provide new ways to reduce expenditures while improving operational efficiency and at approximately 20:1, it offers an outstanding return on investment.

PUBLIC CONTRACT OPERATION (BID TO GOAL)

In 1997, the Metropolitan Wastewater Department (MWWD) was reviewed by ZBMR and was in the process of trying to address their recommendations and implement a pilot pay for performance program. Shortly thereafter, the Operations & Maintenance Division (O&M) formed a Labor-Management Partnership and began evaluating different strategies for optimizing wastewater treatment. This evaluation process included benchmarking trips to other successful operations in the United States.

However, traditional models of managed competition and continuous improvement studied did not provide the features necessary to accomplish the improvements identified for San Diego which sought to optimize the delivery of services by a government agency using the most appropriate and beneficial features of both the public and private sectors.

Public Sector strengths included: maintaining control of key public assets, no profit conflict with public health and safety, and retention of any budget savings for the benefit of ratepayers. While significant Private Sector strengths included: competitive budgets, performance incentives, and a formal agreement with clear performance standards and expectations. Budgets were validated to ensure they were competitive and an optimization plan was developed for improving every aspect of operation.

Through a strategic partnership with the Optimization Program and with the help of industry experts from HDR Consulting, MWWD created the process that is now referred to as Bid to Goal to meet this need. Eventually this process received industry wide recognition and has become the model for several other jurisdictions around the country.

The Bid to Goal agreement in O&M Division is set to expire June 30, 2003 and is currently being considered for a 4 year extension. Meanwhile, the Wastewater Collection Division (WWC) at MWWD successfully implemented a Bid to Goal agreement on July 1, 2001 that is designed to deliver operational efficiencies valued at an estimated \$4.5 million a year while reducing annual sewer system overflows by 34% by Fiscal Year 2007.

In 2002, the Water Department, Operations Division started its own Bid to Goal project which is expected to be ready for implementation beginning in Fiscal Year 2005.

Accomplishments

The Bid-to-Goal Agreement has saved the City of San Diego Metropolitan Wastewater system ratepayers an estimated \$90 million over 5 years.

The MWWD O&M Division has continued an outstanding record of full regulatory compliance over the life of the Agreement. MWWD earned the Association for Metropolitan Sewerage Agency (AMSA) platinum and goal awards for regulatory compliance.

MWWD O&M Division was the first U.S. public utility in the nation to achieve ISO 14001 certification which is a systematic process to document procedures to ensure full compliance with standards of operations that consider environmental impact. Since then, the Wastewater Collection Division has begun this same process and the Environmental Monitoring and Technical Services Division has completed their certification process.

Recognition

In October 2001, the Bid-to-Goal program received the International City/County Managers Association (ICMA) Program Excellence Award for Innovations in Local Government Management.

The program has recently been selected as a Finalist for the 2002 Innovations in American Government Awards, a program of the Institute for Government Innovation at Harvard University's John F. Kennedy School of Government.

Recommendations

7. Continue to operate under the Labor-Management Partnership – Bid to Goal agreements in the Water and Wastewater Departments.
8. Look for additional opportunities to implement Bid to Goal in other areas of the City as appropriate.

Based on its record of accomplishment, the Bid to Goal Program continues to provide enhanced operational performance and significant efficiencies for ratepayers.

PERFORMANCE-BASED BUDGETING: MANAGING FOR RESULTS

Performance-based budgeting provides a system of budget allocation and tracking designed to provide information to department management, City management, the Mayor and City Council and the residents of San Diego on how efficiently and effectively City services are provided. The information developed is presented in the City's award winning budget document which is available on CD and online.

This information along with benchmarking information on services provided by other cities and the cost of such services, allows for the comparison of San Diego's services and costs with other similar operations. In the process San Diego is able to identify, evaluate, and if warranted, incorporate other "best practices" in a continuing effort to improve our City services and reduce costs.

Recognition

In the February 2000 edition of *Governing* magazine, 35 cities were rated in the categories of financial management, human resources, information technology, capital management, and managing for results. The City of San Diego was ranked second in the magazine's study.

In the "Financial Management" category, the City was recognized for its comprehensive investment policies, including regular monitoring reports and strict oversight of cash management. In addition, the City's budget document was considered "highly readable and clearly identified issues and goals, as well as relevant economic conditions." *The Governing Magazine article stated:*

San Diego deserves special recognition for going beyond most other cities in cost accounting. It can tell you the cost per residential ton of refuse recycled or the average cost per foot of sewer mains cleared. The utility of such data is enormous.

Only one city was rated higher than the City of San Diego in the category “Managing for Results”.

San Diego is now near the head of the class in Managing for Results. Performance measures and goals can be found within each department, with citizen feedback included. The budget makes outstanding efforts to tie its spending figures to performance measures. ...Another safeguard against mediocrity: San Diego publishes comparative data from other cities to identify best practices and opportunities for improvement.

For the Fiscal Year 2002 Annual Budget, the California Society of Municipal Finance Officers (CSMFO) presented the City of San Diego with the Excellence in Operational Budgeting, Excellence in Public Communication Budgeting, Merit in Innovative Budgeting, and the Excellence in Capital Budgeting awards.

In addition, for the Fiscal Year 2002 Annual Budget, the City received the Distinguished Budget Presentation Award from the Government Finance Officers Association of the United States and Canada (GFOA):

Government Finance Review: Comparing program and service performance with other jurisdictions allows governments to monitor their accomplishments more effectively. More importantly, intergovernmental comparisons allow governments to identify and incorporate, “best practices.” ...The City of San Diego has improved its financial management, performance measurement system and organizational performance by establishing its own benchmarking process comparing itself to similar governments.

Recommendation

9. Continue to operate the Performance-Based Budgeting Program.

Based on its record of accomplishment, the Performance-Based Budgeting Program continues to deliver exceptional value and enhance the City’s ability to quantify costs and measure performance.

BUDGET ANALYSIS AND REPORTING

To facilitate the budget development and improve communication of the City’s goals and objectives, the City Council proposed to expand the budget review process by implementing and participating in “Budget Work Groups” supported by the City Auditor and Comptroller effective in Fiscal Year 2002. This review process is being achieved by the cooperative participation of professional, multi-skilled teams formed by members of the City Council, and support provided by the City Manager’s Office, the Financial Management Director, Auditor and Comptroller, and other City staff.

The scope of work of these teams includes an annual in-depth budget review of selected departments and/or other areas of particular interest to the City Council and the public.

Accomplishments

Currently, the Convention Center Corporation is in the process of being reviewed. The findings of this review are scheduled to be discussed at the April 23, 2003 Rules, Finance, and Intergovernmental Relations Committee Meeting. This year, the committee is chaired by Council member Brian Maienschein and includes Council members Michael Zucchet and Toni Atkins as committee members.

The Citizen's Budget is another useful tool for budget information. This document can be found in Volume One of the Annual Budget and is geared at simplifying the City's budget so that it can be easily understood by anyone interested. It contains an overview of the City's budget, a glossary of budget terms and an expanded section on "*How to Read*" the budget.

Recognition

In a March 2002 report by the Reason Public Policy Institute titled, *Citizens' Budget Reports: Improving Performance and Accountability in Government*, the author Geoffrey Segal uses San Diego as a case study for good local government and is quoted as saying:

"The Citizens' Budget Report details key elements of San Diego's success, including; performance-based budgeting that links funding to measured results, citywide surveys of residents and city employees, and benchmarking that evaluates the quality and cost of services. San Diego's commitment to performance measures and constant improvement makes the city the standard by which other cities are judged."

Recommendation

10. Continue to publish the Citizens' Budget Document.

BENCHMARKING, SURVEYS, SERVICE EFFORTS AND ACCOMPLISHMENTS

Benchmarking

Benchmarking is a management tool used to ensure that the City is operating at its highest level when compared to other City's with similar demographics. This process also allows the City departments to continually enhance their programs and provide up to date information to their clients.

Citywide Surveys

The City conducts several surveys to gauge the citizen satisfaction with City service and priorities. These include the annual Citywide Resident Satisfaction Survey and department customer surveys. The Citywide Resident Satisfaction Survey determines

residents' level of satisfaction with major services, perceptions of safety, and attitudes about the quality of life in San Diego. Finally, many departments conduct their own surveys to measure satisfaction with their key services.

Service Efforts and Accomplishments (SEA)

The Service Efforts and Accomplishments (SEA) report provides a historic look at the performance of 10 major City departments, in terms of key performance measures, staffing and expenditures and specific on-going department priorities and accomplishments, changes and additions.

The SEA also presents extensive information comparing the services of the City with those of other similar cities, in terms of service levels, quality and cost. This information, along with information on department priorities is designed to provide the Mayor and City Council with a basis for understanding department budgetary needs and establishing budgetary allocations.

The SEA is generally published as a separate document from the Citizens Budget. However, this year, due to budget constraints the SEA will be incorporated as part of Volume I to reduce printing costs.

Recommendations

11. Continue to conduct appropriate benchmarking efforts.
12. Continue to conduct an annual Resident Satisfaction Survey.
13. Continue to publish the annual Service Efforts and Accomplishments document.

CITYWIDE AUTOMATION

Information Technology (IT) Strategic Plan

The City's first IT Strategic Plan was approved by the City Council in fiscal year 2002. This plan will address: (1) IT Governance – defining the City's structure to effectively and efficiently manage technology, (2) IT Enterprise Architecture Plan that will provide a decision support tool for IT planning, management and development processes, and (3) Technical Initiatives – providing an overview of specific technology projects that will enhance the City's internal operations and external services.

Four key technology areas have been identified to assist the City in achieving its IT goals and objectives over the next three to five years: (1) Customer Relationship Management, (2) e-Government, (3) Wireless Technologies, and (4) Expanded Geographic Information System (GIS). These technology themes are integral to over 35 initiatives. Noteworthy examples include:

Injury Tracking & Safety System (ITSS)

The Risk Management Department is currently implementing a replacement information system to track information related to Workers' Compensation, Injury Tracking, and Liability programs. The system will reduce claims processing time, reduce claim

payment delays, and reduce the total number of claims and injuries by early problem identification (analyzing trends) and safety training for targeted at-risk work groups. These results will provide improved employee health and safety, which in turn slows the increase in costs. The system is scheduled to come online in March 2003.

Criminal Records Management System (CRMS)

This new, online records management system will enhance the Police Department's capabilities for data collection, retrieval, and analysis of criminal records. The system will minimize redundant data capture/entry. Crime-related reports taken by officers in the field will be captured electronically at initial entry and transferred to centralized and regional public safety and justice agencies' systems. The information will be more timely and accurate and will promote crime solving, analysis and education. The Criminal Records Management System (CRMS) is scheduled for completion in 2004.

Recommendation

14. Continue to implement Citywide Automation Projects as appropriate and as funding permits.

Based on its record of accomplishment, Citywide Automation continues to provide new ways to reduce expenditures through leveraged technology and best practice integration projects for improved operational efficiency and continues to provide an outstanding return on investment.

CONCLUSION

In May 2001, the Reason Public Policy Institute (RPPI) published a study ranking the efficiency of 44 of the nation's 50 largest cities. This study concluded that the City of San Diego was sixth overall in the nation for providing efficient government services to its citizens.

In February of 2002, Reason Public Policy Institute (RPPI) published a follow-up study ranking the efficiency of California's 10 largest cities. This study concluded that the City of San Diego was the most efficient large city in the state.

While past accomplishment is no guarantee of future performance, there is every indication that continued operation of these Performance Management Programs will result in significant additional benefit in the future. In order to support the Blue Ribbon Committee's recommendation #8, the City Manager's recommendations contained in this report are also summarized below:

1. Continue to operate the Zero-Based Management Review process.
2. Continue to prioritize city services giving deference to higher priority needs
3. Continue to operate the Optimization Program.

4. Identify and optimize critical citywide and cross-departmental functions.
5. Explore opportunities to create an innovation fund to pay for projects that show exceptional promise for improved efficiency.
6. Continue to review department business plans to identify opportunities for improved efficiency.
7. Continue to operate under the Labor-Management Partnership - Bid to Goal agreements in the Water and Wastewater Departments.
8. Look for additional opportunities to implement Bid to Goal in other areas of the City as appropriate and as funding permits.
9. Continue to operate the Performance-Based Budget Program.
10. Continue to publish the Citizens' Budget Document.
11. Continue to conduct appropriate benchmarking efforts.
12. Continue to conduct an annual Resident Satisfaction Survey.
13. Continue to publish the annual Service Efforts and Accomplishments document.
14. Continue to implement Citywide Automation Projects as appropriate and as funding permits.

The implementation of these recommendations is consistent with the Blue Ribbon Committee's recommendation #8, to seek and pursue operational efficiencies in order to become the best City possible.

ALTERNATIVE

Do not implement the recommendations

Respectfully submitted,

Lisa Irvine
Financial Management Director

Approved: Michael T. Uberuaga
City Manager

IRVINE/CMS